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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

May 10, 1994

Honorable Reed E. Hundt
Chairman
Federal Communications Commission
1919 M Street, N.W.
Washington, D.C. 20054

Re: CC Docket No. 92-77
Billed Party Preference

Dear Chairman Hundt:

On December 23, 1993, you received a letter from MCI, Pacific Bell, GTE and Southwestern Bell transmitting a "Billed Party Preference Service Description" reflecting a consensus among those four entities "should [the Commission] decide to order BPP implementation." The letter and accompanying materials gave the impression that BPP implementation will be simple and quick and will bring significant benefits to consumers. Other materials have been submitted since then, most notably by MCI, urging favorable action on BPP. Because the undersigned organizations believe the Commission may be considering whether to adopt the BPP proposal at this time, this letter responds to those claims and urges the Commission to abandon the outdated BPP concept once and for all.

With the passage of time, BPP has become a solution in search of a problem. The theoretical benefit of BPP was to assure that customers using operator services could reach the carrier of their choice. When BPP was first proposed this was indeed a problem. It no longer is. Today, mandatory 10XXX dialing options, 800 numbers and aggressive price and advertising competition for collect calls have given consumers the choice that BPP once promised. BPP has thus become an outdated -- and frighteningly expensive -- solution to a problem that has already been solved.

It bears noting that the broad array of interests (competitors, aggregators, manufacturers and users) who would suffer serious harm from BPP implementation is virtually unparalleled. It is rare that one FCC mandate can threaten so many varied interests at the same time. A brief summary

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of each of the major groups affected illustrates the broad scope of BPP's potential injury.

Competitors

The vast majority of **interexchange carriers**, as well as CompTel, the principal interexchange carrier industry association, oppose BPP. Twenty-three IXC's filed comments in the Commission's proceeding, 19 of them opposed to BPP. These companies object to: (1) the transfer of operator processing functions from competitive IXC's to monopoly LECs; (2) the assignment of all intraLATA 0+/0- calls to the LECs; (3) the vast expense required for them to become BPP-compatible; (4) the assignment of millions of 0+ callers to MCI and Sprint without competitive balloting; (5) the use of 10-digit screening to limit IXC calling card options; and (6) the abandonment of the presubscription of aggregators after a highly competitive marketplace for operator assisted long distance was created.

Independent public payphone providers will suffer increased costs, stranded investment and substantial loss of revenue. In addition, they will see the benefits of BPP flow to their competitors -- the LECs who already control 90 percent of the payphone market. The loss of revenue to payphone providers caused by BPP will be a serious blow to payphone competition, a market opened to competition by the FCC only a few short years ago. The national association representing independent public payphone providers, and several state payphone organizations, oppose BPP.¹

Competitive access providers will be harmed by BPP because all 0+/0- dialed calls will be directed to the LECs, at the very time when Congressional and FCC policy is attempting to open LEC monopolies to competition. The forced split of 1+ and 0+ traffic of large aggregators will result in smaller special access traffic volumes which, in many cases, will destroy the

¹ Oppositions to BPP were filed in CC Docket No. 92-77 by the American Public Communications Council, the Independent Payphone Association, the California Payphone Association, the Northwest Payphone Association, the Independent Payphone Association of New York and the Midwest Independent Coin Payphone Association.

economic efficiencies of using CAP services to reach IXC's. Moreover, BPP will ensure that all intraLATA 0+/0- calls will be directed to the LECs, preventing CAPs from competing for those calls. The national association representing the competitive access industry, as well as several individual CAPs, has filed in opposition to BPP.²

Commercial credit card issuers will be precluded from participating in the long distance marketplace by the limitation of BPP to 10 digit screening rather than 14 digit screening. The proposed plan ensures that only LECs can issue BPP-compatible telephone line number calling cards. Commercial credit card issuers, therefore, are opposed to BPP implementation as proposed.³ On the other hand, if 14 digit screening is required, several LECs have indicated that they will no longer support BPP.⁴

Aggregators

Hotels, motels, universities, state agencies, jails and prisons all will suffer a variety of injuries at the hands of BPP. The costs of providing telecommunications services will rise dramatically for these entities under BPP for several reasons: (1) direct trunking of 0+ and 1+ aggregator calls jointly to presubscribed IXC's via special access will have to be abandoned in many cases (under BPP, 0+ traffic would have to be sent to the LEC and 1+ to the IXC, making the use of special access for aggregator traffic far less likely to be cost-effective); (2) the over \$1 billion investment in equipment and software spent to implement the unblocking mandate issued by the FCC pursuant to TOCSIA will be rendered obsolete by BPP, as all 0+ calls would be

² Oppositions to BPP in CC Docket No. 92-77 included ex parte or reply comments filed by the Association for Local Telecommunications Services and Metropolitan Fiber Systems, Inc. (now MFS Communications Company, Inc.).

³ Visa, Inc. has indicated opposition to the 10 digit screening version of BPP which is under consideration. Ex parte letter, Visa USA, Inc. February 14, 1994.

⁴ See ex parte notices of Ameritech (September 3, 1993), Southwestern Bell (December 8, 1993) and GTE (February 9, 1994).

directed to the LEC; (3) fraud control problems would be greatly exaggerated in some environments, most notably jails and prisons, by the loss of control of call processing by the aggregator; and (4) the loss of commission payments from carriers competing to become the presubscribed IXC will rob aggregators of the ability to recover the costs of their telecom systems from the people who use them. Indeed, several aggregator representatives are on record as stating that, in the event commissions are lost, costs will have to be passed on to consumers anyway, thus negating the assumption that BPP will result in lower charges.⁵ The national associations of these organizations all oppose BPP, as do many of their individual members.⁶

Manufacturers

BPP will harm public communications equipment manufacturers by foreclosing further development of CPE-based platforms for providing basic and enhanced telecommunications services, and by stranding existing investment in such equipment. BPP artificially precludes core call processing functions from being performed in CPE, thereby shutting off the major revenue streams that provide incentives to develop and deploy "intelligent" CPE products and services. As a result, BPP will choke off technological development and economic growth in the highly innovative manufacturing segment of the CPE-based operator services market, and

⁵ See letters from Airports Council International, dated December 7, 1993, and the American Association of Airline Executives and the American Transport Association, dated December 29, 1993.

⁶ Aggregators and their associations opposing BPP in CC Docket No. 92-77 include: the American Hotel and Motel Association; the Airports Association Council International (and 17 airports filing individually); the American Jail Association (and five state departments of corrections filing individually); Harvard, Duke and Montana State Universities (and MIT Information Systems); the National Association of Convenience Stores; the National Association of Truck Stop Owners; the Illinois Department of Central Management Services; the Georgia Department of Administrative Services; the South Carolina Division of Information Resource Management; the Tennessee Department of Finance; and the North American Telecommunications Association.

will eliminate the service-provisioning segment of that market entirely.⁷

Local Exchange Carriers

The extreme costs and dubious benefits of BPP have caused some LECs to oppose the concept as well. Even Bell Atlantic, whose petition served as the basis for the Commission's Notice, now opposes BPP.⁸ BellSouth and NYNEX also oppose BPP.⁹ These LECs have concluded that the vast cost of BPP simply is not justified. And Ameritech, the original creator of the concept, as well as Southwestern Bell and GTE, have indicated they will oppose BPP if 14-digit card screening is required.¹⁰

A recent study by Frost & Sullivan Market Research commissioned by CompTel found that a maximum of 19 percent of 0+/0- calls would actually be benefitted by BPP.¹¹ The remainder of such calls either already provide the caller's preferred carrier under the present system or would continue to require access code dialing even with BPP. Using the cost estimates in the record in Docket No. 92-77,¹² this study found a cost of 63¢ per benefitted call to implement BPP. Of course, the per call cost could be less if expenses are

⁷ Oppositions to BPP were filed in CC Docket No. 92-77 by Intellicall, Inc., the largest domestic manufacturer of private pay telephone equipment, and by the American Public Communications Council, whose membership includes many public communications equipment manufacturers.

⁸ See ex parte letter from Marie Breslin, Director, FCC Relations, Bell Atlantic, dated May 5, 1994.

⁹ BellSouth Comments, July 7, 1993; NYNEX Comments, July 7, 1993; joint ex parte of Bell Atlantic and BellSouth (May 5, 1994).

¹⁰ See note 4 above.

¹¹ Frost & Sullivan, Inc., Report on Applicability and Costs of Billed Party Preference (October 1993), attached to ex parte notice, CompTel, November 22, 1993.

¹² Recent ex parte submissions suggest these estimates may be too modest.

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shifted to the 80 percent of callers who have no need for the BPP system.

Finally, the consumer benefits to be derived from BPP are meager at best. In return for billions of dollars in investment and myriad harms to competition, BPP will enable a maximum of 19 percent of 0+/0- callers to avoid dialing a five digit access code (10XXX) to reach their preferred IXC. The minor nature of this benefit to consumers is reflected in the fact that the record in Docket No. 92-77 contains at least 178 comments and reply comments, and 175 ex parte filings -- and only a handful of letters from consumers or their advocates in support of BPP.

Eighteen members of Congress have considered this issue and expressed serious reservations about the adoption of BPP.¹³ We hope your deliberations lead you to the same conclusion.

Sincerely,

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¹³ See letter dated October 23, 1993, to FCC Chairman James Quello from Senators John Breaux (D-LA), Byron Dorgan (D-ND), Conrad Burns (R-MT), Trent Lott (R-MS), Strom Thurmond (R-SC) and Mitch McConnell (R-KY); letter dated November 4, 1993, to FCC Chairman James Quello from Congressman Jack Fields (R-TX); and letter dated November 19, 1993, to FCC Chairman James Quello from Congressmen Billy Tauzin (D-LA), Jim Cooper (D-TN), Thomas Manton (D-NY) James Clyburn (D-SC), John Bryant (D-TX), John Spratt (D-SC), J. Alex McMillan (R-NC), Cliff Stearns (R-FL), Sonny Callahan (R-AL), Michael Bilirakis (R-FL) and Floyd Spence (R-SC).

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cc: Commissioner James Quello
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